

2005 BCSECCOM 191

March 31, 2005

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - National Instrument 51-102, s. 13.1 *Continuous Disclosure Obligations* - an issuer wants relief from the requirement to file an annual information form - the issuer is a trust; the issuer's security holders receive fixed distributions guaranteed by a bank, trust company or insurance company; the continuous disclosure materials of the guarantor will be filed and provided to security holders of the trust

Applicable British Columbia Provisions

National Instrument 51-102, s. 13.1 *Continuous Disclosure Obligations*

In the Matter of
the Securities Legislation of
British Columbia, Alberta, Manitoba, Nova Scotia,
Newfoundland and Labrador, Yukon, and Nunavut
(the Jurisdictions)

and

In the Matter of
the Mutual Reliance Review System for Exemptive Relief Applications

and

In the Matter of
HSBC Bank Canada (the Bank) and HSBC Canada Asset Trust
(the Trust, and collectively with the Bank, the Filer)

MRRS Decision Document

Background

The local securities regulatory authority or regulator (the Decision Maker) in each of the Jurisdictions has received an application from the Filer for a decision under the securities legislation of the Jurisdictions (the Legislation) for an exemption from the requirement for the Trust to prepare and file an annual information form (an AIF) for financial years ending on or after December 31, 2004 (the Requested Relief), subject to certain terms and conditions.

2005 BCSECCOM 191

Under the Mutual Reliance Review System (MRRS) for Exemptive Relief Applications:

- (a) the British Columbia Securities Commission is the principal regulator for this application, and
- (b) this MRRS decision document evidences the decision of each Decision Maker.

Interpretation

Defined terms contained in National Instrument 14-101 *Definitions* have the same meaning in this decision unless they are defined in this decision.

Representations

The decision is based on the following facts represented by the Filer:

HSBC Bank Canada

- 1. the Bank is a Canadian chartered bank governed by the *Bank Act* (Canada) (the Bank Act); the Bank is a reporting issuer in each of the Jurisdictions and is not, to its knowledge, in default of any requirement of the Legislation;
- 2. the authorized share capital of the Bank consists of: (i) 993,677,000 common shares (Bank Common Shares), (ii) an unlimited number of Class 1 Preferred Shares, issuable in series (Bank Class 1 Preferred Shares) and (iii) an unlimited number of Class 2 Preferred Shares, issuable in series, of which none are outstanding;
- 3. the Bank Class 1 Preferred Shares Series A are listed and posted for trading on the Toronto Stock Exchange;

HSBC Canada Asset Trust

- 4. the Trust is a closed-end trust established under the laws of British Columbia by HSBC Trust Company (Canada) (the Trustee), as trustee, pursuant to a declaration of trust made as of May 26, 2000 (the Declaration of Trust); the Trust's head office is located in Vancouver, British Columbia; the Trust is a reporting issuer in each of the provinces and territories of Canada that provide for a reporting issuer regime by virtue of the filing of a (final) prospectus dated June 21, 2000 (the Prospectus) in respect of the initial public offering (the Offering) of HSBC HaTS – Series 2010 (as defined below); to its knowledge, the Trust is not in default of any applicable requirement of the Legislation;

2005 BCSECCOM 191

5. the beneficial interests of the Trust are divided into two classes of units, issuable in series, designated as Trust Capital Securities (HSBC HaTS) and Special Trust Securities (Special Trust Securities and, collectively with the HSBC HaTS, Trust Securities); the outstanding securities of the Trust consist of: (i) 200,000 HSBC Canada Asset Trust Securities – Series 2010 (HSBC HaTS – Series 2010), which are listed and posted for trading on the Toronto Stock Exchange; and (ii) 200,001 Special Trust Securities;
6. the Trust was established solely for the purpose of effecting the Offering and possible future offerings of securities in order to provide the Bank with a cost effective means of raising capital for Canadian bank regulatory purposes; the Trust does not and will not carry on any operating activity other than in connection with the Offering and any future offerings;
7. the business objective of the Trust is to acquire and hold assets (the Trust Assets) primarily from the Bank or its affiliates which may consist of: (a) undivided co-ownership interests in one or more pools of Canada Mortgage and Housing Corporation (CMHC) insured first mortgages on residential property situated in Canada; (b) certain mortgage-backed securities; (c) CMHC - insured first mortgages on residential property; and (d) to the extent that the proceeds of the assets of the Trust are not invested in the assets referred to above in (a), (b) or (c), money and certain debt obligations that are qualified investments under the *Income Tax Act* (Canada) for trusts governed by certain deferred income plans;

HSBC HaTS

8. subject to paragraph 9 below, each HSBC HaTS – Series 2010 entitles the holder (HSBC HaTS Holders) to receive a fixed cash distribution (a Distribution) payable by the Trust on the last day of June and December of each year (each such day, a Distribution Date and each period from the Distribution Date to and including the next Distribution Date, a Distribution Period);
9. HSBC HaTS Holders are not entitled to receive Distributions in respect of a particular Distribution Date if the Bank has not declared regular cash dividends on its preferred shares in the appropriate Reference Dividend Declaration Month (as that term is defined in the Prospectus);
10. the Bank has covenanted, pursuant to the Bank Share Exchange Agreement (as defined in the Prospectus) that, if on the Distribution Date the Trust fails to pay in full Distributions on the HSBC HaTS to which the HSBC HaTS

2005 BCSECCOM 191

Holders are entitled, the Bank will not declare dividends of any kind on its preferred shares until a specific period of time has elapsed from the Distribution Date;

11. upon the occurrence of certain adverse tax events or events relating to the treatment of HSBC HaTS – Series 2010 for capital purposes prior to June 30, 2005, HSBC HaTS – Series 2010 will be redeemable, at the option of the Trust and with the approval of the Superintendent of Financial Institutions (Canada) (the Superintendent) and the Financial Services Authority (United Kingdom) (the FSA), in whole (but not in part) for a cash amount;
12. on June 30, 2005 and on any subsequent Distribution Date, the HSBC HaTS – Series 2010 will be redeemable in whole (but not in part) for a cash amount, at the option of the Trust and subject to the approval of the Superintendent and the FSA;
13. the terms of the HSBC HaTS – Series 2010 do not provide for an exchange at the option of the holder of the HSBC HaTS – Series 2010 into preferred shares of the Bank; rather, after December 31, 2010 the effective annual yield of the HSBC HaTS – Series 2010 will be reset, as follows: unless the Bank has failed to declare dividends on any of its shares, the Trust will make non-cumulative semi-annual cash distributions to the holders of HSBC HaTS – Series 2010 in amounts to provide an effective annual yield of 7.78% to December 31, 2010; for each Distribution Date after December 31, 2010, the effective annual yield will be reset to an amount determined by multiplying \$1,000 by one half of the sum of the Bankers' Acceptance Rate (as defined in the Prospectus) for the Distribution Period immediately preceding that Distribution Date plus 2.37%, payable on the last day of June and December of each year commencing June 30, 2011 provided that Bank has not failed to declare dividends on any of its shares in the appropriate Reference Dividend Declaration Month;
14. each HSBC HaTS – Series 2010 will be automatically exchanged (the Automatic Exchange Right) without the consent of the holder, for one Bank Class 1 Preferred Share Series A if: (i) an application for a winding-up order in respect of the Bank pursuant to the *Winding-up and Restructuring Act* (Canada) is filed by the Attorney General of Canada or a winding-up order in respect of the Bank pursuant to that Act is granted by a court; (ii) the Superintendent has taken control of the Bank or its assets pursuant to the Bank Act; (iii) the Superintendent advises the Bank in writing that the Superintendent is of the opinion that the Bank has a risk-based Tier 1 Capital ratio of less than 5.0% or a risk-based Total Capital ratio of less than 8.0%; or (iv) the Superintendent directs the Bank pursuant to the Bank Act to increase its capital or to provide additional liquidity and the Bank elects to cause the

2005 BCSECCOM 191

exchange as a consequence of the issuance of that direction or the Bank does not comply with that direction to the satisfaction of the Superintendent within the time specified in that direction;

15. except to the extent that Distributions are payable to HSBC HaTS Holders and, other than in the event of termination of the Trust (as set forth in the Declaration of Trust), HSBC HaTS Holders have no claim or entitlement to the income of the Trust or the Trust Assets;
16. in certain circumstances (as described in paragraph 14 above), including at a time when the Bank's financial condition is deteriorating or proceedings for the winding-up of the Bank have been commenced, the HSBC HaTS - Series 2010 will be automatically exchanged for Bank Class 1 Preferred Shares Series A without the consent of HSBC HaTS Holders; as a result, HSBC HaTS Holders will have no claim or entitlement to the Trust Assets, other than indirectly in their capacity as preferred shareholders of the Bank;
17. HSBC HaTS Holders may not take any action to terminate the Trust;
18. disclosure with respect to the Trust is provided in a note to the Bank's audited annual financial statements and the Bank's financial statements are sent to holders of HSBC HaTS at the same time and in the same manner as if the holders of HSBC HaTS were holders of Bank Class 1 Preferred Shares Series A;
19. by an MRRS Decision Document dated May 17, 2001 (the Previous Decision), the Trust is exempt from certain continuous disclosure requirements of the Legislation, subject to certain conditions;
20. since the date of the Previous Decision, the Trust has become subject to the requirement contained in National Instrument 51-102 *Continuous Disclosure Obligations* to prepare and file an AIF, which requirement did not exist in the Jurisdictions at the time the Previous Decision was issued.

Decision

Each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the decision has been met.

The decision of the Decision Makers under the Legislation is that, effective March 31, 2005, the Requested Relief is granted, for so long as:

- (a) the Bank remains a reporting issuer under the Legislation;

2005 BCSECCOM 191

- (b) the Bank prepares and files an AIF with each of the Decision Makers under the Legislation on an annual basis;
- (c) all outstanding securities of the Trust are either HSBC HaTS or Special Trust Securities;
- (d) the rights and obligations of holders of additional HSBC HaTS are the same in all material respects as the rights and obligations of the holders of HSBC HaTS at the date hereof; and
- (e) the Bank or its affiliates are the beneficial owners of all Special Trust Securities; and

provided that if a material change occurs in the affairs of the Trust, this decision will expire 30 days after the date of that change.

Martin Eady, CA
Director, Corporate Finance
British Columbia Securities Commission